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TO RUEHC/SECSTATE WASHDC 6236
INFO RUEATRS/DEPT OF TREASURY WASHDC
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UNCLAS MOSCOW 000158

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E.O. 12958: N/A

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SUBJECT: RUSSIAN STOCK MARKETS TUMBLE AMID GLOBAL CONCERN ABOUT
POSSIBLE U.S. RECESSION

[1](#)1. (U) This message is sensitive but unclassified and not for
internet distribution.

Summary

[1](#)2. (U) Russian investors prolonged the downward slide of the
benchmark RTS Index that began last week. Although the market
reported minor gains today, the RTS Index had fallen 15 percent
since January 14. Mounting fears of a U.S. recession prompted the
decline. Washington's January 18 announcement of a USD 150 billion
economic stimulus proposal further exacerbated, not eased, these
fears and, according to our contacts, pushed Russian indices sharply
lower on January 21. Observers maintained that the outlook for the
Russian economy overall remained fundamentally sound. The drop
among Russian companies' stock market valuations, however, also
reflected concern about Russia's integration into the global economy
comes with a cost. End Summary.

Fear and Loathing in Moscow

[1](#)3. (SBU) Russian investors began selling their stakes in Russian
firms last week amid growing concerns that the U.S. economy was
headed for a recession. As a result, the benchmark RTS Index fell
6.7 percent. Alfa Capital Investment Fund Manager Andrei Kilin said
that, although U.S.-Russia trade and investment links were
relatively small compared to Russia's bilateral economic
relationships with European countries, investors recognized that the
U.S. remained the engine of the global economy. According to Kilin,
news of a slowdown in the U.S., the market that accounted for some
20 percent of all imports worldwide, generated fear that a slowdown
among emerging market economies could not be far behind.

[1](#)4. (SBU) However, the week-long selloff in Russian exchanges
created buy-up opportunities for foreign investors. General
Director of the investment firm Investitsiya Aleksei Chalenko said
that the majority of sell-side trades in the last week were
initiated by Russian individual and institutional investors.
Foreign investors, however, saw this as a buying opportunity since
the Russian economy showed signs of strong consumer demand, stable
fiscal policy, and growing domestic and foreign direct investment.

Stimulus Plan Sends Russian Stocks Lower

[1](#)5. (SBU) While U.S. exchanges were closed on January 21, Russian
stock prices continued to fall. Troika Dialog Strategy Co-Director

Andrey Kuznetsov attributed the 7.3 percent decline in the benchmark RTS on January 21 to a "growing conviction" among investors that the U.S. was headed for a recession. President Bush's announcement of a USD 150 billion economic stimulus program on January 18 confirmed "how much trouble the U.S. economy was in," according to Kuznetsov. The reaction indicated a shift among Russian and global investors away from an approach of "pricing in" marginally tighter U.S. monetary policy to one of "significant U.S. recession." (Note: The two previous one-day record declines on the RTS were June 13, 2006 - a drop of 9.37 percent - in connection with increased U.S. interest rates and October 27, 2003 - a drop of 10.06 percent-on the news of Mikhail Khodorkovsky's arrest. End Note.)

16. (SBU) Kuznetsov added that Russia's stock market slump was not all psychological. Russia's commodities-heavy economy contributed to the downturn. In conjunction with a U.S. slowdown, China's ongoing monetary and fiscal tightening to bring down rising inflation brought to light that "Russia was not immune" from a global economic shakeup. U.S. consumers might not be able to provide relief this time, and China might not be able "to grow its way out of this one the way it did after in 2001," according to Kuznetsov.

Outlook for 2008

17. (U) Analysts were still bullish in their forecasts for Russian stocks in 2008. MDM Bank Credit Analyst Mikhail Galkin and Uralsib Head of Equity Research Chris Weafer said the RTS Index could reach 3,000 by the end of the year, a growth rate of 50 percent. Alfa Capital's Kilin cautioned, however, that further "corrections" may still lie ahead. He said that since January 2000, the Russian market suffered 17 corrections of more than 10 percent. Of those, 11 were for more than 15 percent, and six for more than 25 percent. Therefore, the 15-percent decline since the recent peak of 2,340

seen on January 14 has been relatively modest by historical standards.